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EXECUTIVE DIGEST

OVERVIEW

This report summarizes the Office of the Inspector General's (OIG's) audit of District of Columbia Projects Funded by Federal Highway Administration (FHWA). For fiscal year (FY) 2000, the OIG audited 22 projects jointly funded by FHWA and DPW, as shown in Exhibit A. These projects totaled \$33.2 million. We identified adjustments of \$5,121,468 that were needed to close these projects. The net result of the adjustments resulted in reimbursements of \$5,001,490 to DPW. These adjustments were needed to properly classify: (1) non-participating labor costs, (2) labor costs and other expenses that were charged to incorrect projects, and (3) contract payments processed with the incorrect coding. Additional errors were identified due to incorrect or incomplete grant project profiles established in the District's financial accounting system.

CONCLUSION

For our FY 2000 audit, the OIG reviewed 22 grant projects, totaling \$33.2 million, jointly funded by FHWA and DPW. The 22 projects reviewed consisted of 14 closed projects and 8 ongoing projects. Our audit determined that of the 14 projects closed during FY 2000, DPW over-billed FHWA by \$120,000 for 5 projects, under-billed FHWA by \$609,000 for 7 projects, and no adjustments were needed for 2 projects. DPW also spent \$1.6 million less than what was budgeted for the 14 closed projects. Accordingly, we brought this matter to the attention of DPW officials who reprogrammed the funds for use on other District highway projects. Our review of the 8 ongoing projects identified that DPW under-billed FHWA by \$4.5 million. Therefore, in total, under-billings exceeded \$5 million.

Additionally, DPW had not closed 17 completed grant projects. DPW has been ineffective in correcting this previously reported condition. On February 28, 2000, the OIG issued its report on Projects Funded by DPW and FHWA. Included in this report was a finding and related recommendation for the closeout of these same completed grant projects. DPW agreed to close most of these projects within 2 months; however, DPW did not take the corrective action that it had agreed to do.

CORRECTIVE ACTIONS

We directed three recommendations to the Director, DPW, that represent necessary action to correct the deficiencies described above. The recommendations, in part, centered on ensuring that costs were properly allocated, billings to the Highway Trust Fund were accurate, and processes were established and implemented to ensure that projects were closed within 12 months of their completion date.

EXECUTIVE DIGEST

DPW's comments to the draft of this report are generally responsive to the intent of the recommendations, with the following two exceptions. Specifically, DPW stated that our report should not include: (1) the results of audit work conducted relating to the eight ongoing projects identified in the report. DPW's rationale included the fact that the internal review process was conducted by a number of DPW staff in addition to the IG staff person, and (2) the monetary impact of adjustments necessary to properly record related expenditures (approximately \$5 million), based on the fact that adjustments identified during the course of our audit were brought to the attention of DPW who has already taken corrective action. Additionally, DPW asserted that had the work not been performed by the OIG auditor, a DPW employee would have had the responsibility of performing this function and the results would be the same.

It is first important to note that OIG personnel are independent of DPW and, like all auditors, provide assistance to agency management and other stakeholders. As in previous years and as with other audits, the OIG publishes the results of its audit work. As such, the results of work at DPW and the conditions identified, even though corrected, are still reported. DPW's assertion that the adjustments would have been made in the normal course of business by a DPW employee had the audit work not been conducted is neither relevant nor provable. This report is an independent assessment that shows long standing deficiencies that have not been resolved by DPW management. The purpose of this report is to summarize the conditions noted during our review of expenditures related to projects funded jointly by the Federal Highway Administration and the District Government. The objectives of this audit were not to evaluate the monetary or other impact that untimely or improperly billed expenditures had on the District Comprehensive Annual Financial Report, but rather to validate the cost of completed projects for the closeout with FHWA and identify either final claims due from or final credits due to FHWA. It is our hope that DPW management will use this report to strengthen policies and controls to ensure the proper, effective and efficient recording, monitoring, and closing of federal highway projects.

We acknowledge and commend the fact that DPW has already taken corrective action on deficiencies noted in our report. We also acknowledge that DPW has established several procedures that should assist in identifying project profile problems and a process for making the necessary corrections to facilitate project payments and closings. DPW's comments and our evaluation of the comments are incorporated where appropriate. The full text of the DPW's response is included at Exhibit C.

INTRODUCTION

BACKGROUND

The OIG provides audit support to DPW in closing out District highway projects and collecting amounts due from the U.S. Department of Transportation's Federal Highway Administration. Costs for these projects are shared between FHWA and DPW based on ratios ranging from approximately 50 to 100 percent. These audits help to ensure that costs are properly allocated, recorded, and paid. Since 1982, the OIG has audited 926 federal highway projects with total costs of about \$1 billion. These audits have resulted in the recovery of \$23.3 million from FHWA. In addition, these audits have identified \$48.6 million in FHWA funds available for use on other District highway projects, which is the difference between amounts budgeted and actual costs.

Our continuous audit of individual completed FHWA projects and cost-to-date audits of ongoing projects supplements the annual single audits performed by a certified public accounting firm and the annual financial statement audit of the District's Highway Trust Fund.

The annual financial statement audit of Projects Funded by the Federal Highway Trust Fund has been conducted by the General Accounting Office since 1996. Beginning with FY 2001, the District of Columbia Emergency Highway Relief Act of 1995, Pub. L. No. 104-21, 109 Stat. 257 (codified as amended at D.C. Code § 7-134.2(e)(2000)) requires the OIG to perform the annual financial statement audit of the District of Columbia's Highway Trust Fund. In conjunction with this audit, we are also required to examine the Fund's 5-year forecast of its expected conditions and operations and issue a statement thereon. In light of the OIG's new responsibility for auditing and issuing an opinion on the Highway Trust Fund, beginning with FY 2002, the OIG will cease to include as part of its Annual Audit Plan, a review of all FHWA projects closed by DPW.

OBJECTIVES

The audit objectives were to validate the cost of completed projects for the closeout with FHWA and identify either final claims due from or final credits due to FHWA. Additionally, we performed cost-to-date audits of 8 active grant projects to determine the propriety of costs recorded to date and identified conditions which prevented the timely closeout of completed grant projects.

SCOPE AND METHODOLOGY

The FY 2000 audit included a review of the 14 completed grant projects and 8 active grant projects. For the active grant projects, we reviewed the propriety of costs recorded to date. These 22 grant projects totaled \$33.2 million. We reviewed Detail Transaction Reports

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for encumbrances, expenditures, and disbursements; invoices; release documents; final contract payments; and other supporting documentation of FHWA projects to ensure their accuracy and completeness. The OIG provided DPW officials with information necessary to properly record project costs and bill FHWA.

Our audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary under the circumstances.

FINDINGS AND RECOMMENDATIONS

FINDING 1: Billing for Grant Project Costs

SYNOPSIS

Our review of 22 projects jointly funded by FHWA and DPW showed that DPW did not: (1) properly record grant project costs, (2) properly compute non-participating grant project labor costs, and (3) properly establish grant project profiles in the District's financial accounting system. Consequently, we identified adjustments of \$5,121,468 that were needed to close these projects. The necessary adjustments showed a net reimbursement of \$5,001,490 to DPW. DPW officials attributed these errors to unfamiliarity with the new financial management system and system setup errors. Additionally, our audit identified \$1.6 million in FHWA funds unspent and available for use on other District highway projects.

AUDIT RESULTS

Our audit identified \$1.6 million in FHWA funds unspent and available for use on other District highway projects and identified net under-billings from grant project cost adjustments that exceeded \$5 million.

Unspent Funds

The audit identified that DPW spent \$1.6 million less than what was budgeted for the 14 closed projects. Accordingly, we brought this matter to the attention of DPW officials who reprogrammed the funds for use on other District highway projects during FYs 2000 and 2001.

Grant Project Cost Adjustments

The OIG reviewed 22 projects, totaling \$33.2 million, jointly funded by FHWA and DPW (see Exhibit A for details). The 22 grant projects reviewed consisted of 14 closed projects and 8 ongoing projects. In total, net under-billings exceeded \$5 million. Specifically, our audit determined the following.

- For the 14 projects closed during FY 2000, DPW over-billed FHWA by \$120,000 for 5 grant projects and under-billed FHWA by \$609,093 for 7 grant projects. For the remaining 2 grant projects, no adjustments were necessary.
- For the 8 ongoing projects, DPW under-billed FHWA by \$4,512,375.

FINDINGS AND RECOMMENDATIONS

The following is a discussion of grant project costs, non-participating grant project labor costs, and grant project profiles that resulted in the net under billings identified.

Grant Project Costs

For 6 of the 22 projects reviewed, DPW personnel did not properly record grant project costs. DPW also failed to establish encumbrances and post payment vouchers or invoices to the correct account.

Non-Participating Grant Project Labor Costs

FHWA does not share in expenses defined as non-participating grant project labor costs. Non-participating labor costs include expenses for: (1) DPW employees who are ineligible to charge FHWA, (2) DPW labor charged in excess of the percentage of non-participating costs divided by the total cost, and 3) management services contract expenses charged in excess of the percentage of non-participating contract costs divided by the total cost. Labor costs for items 2 and 3 can only be calculated during the closeout of a grant project; at which time, DPW is able to identify the total costs of the grant project.

DPW construction projects may be comprised of more than one grant. It is important to ensure that labor costs are properly allocated among all projects. A final labor cost adjustment may be needed to prorate the labor cost based on the final contract cost split among the grants; especially when a contract contains multiple grants with different participating percentages.

Grant Project Profiles

Project profiles describe valid codes and the edit and posting rules for elements used throughout the District's System of Accounting and Reporting (SOAR) that make up a specific project and grant. These elements identify grant budgets, obligations, expenditures, and revenues. Examples of grant project profiles include grant number, grant phase, federal aid number, and appropriation year.

As part of our review, we performed cost-to-date audits of eight grant projects. For three of the eight grant projects, DPW did not properly establish grant project profiles in SOAR. On October 1, 1998, the District implemented SOAR to process, account for, and report on the financial activities of District agencies, to include DPW's FHWA grant projects. Of the remaining five grant projects for which we performed cost-to-date audits, we identified that payments were coded to incorrect indexes. Additionally, during the conversion from the District Financial Management System to the SOAR, fields were omitted or left blank because the previous accounting system did not contain corresponding data. When a grant project profile

FINDINGS AND RECOMMENDATIONS

field is left blank, expenditures are difficult to post because necessary information cannot be identified. In some instances, expenses are coded to the incorrect project, pending research and subsequent clearance via journal entries to the correct account.

RECOMMENDATION 1

We recommended that the DPW Director establish controls to ensure that costs are properly allocated and its bills to the Highway Trust Fund are accurate and supported by valid expenses.

AGENCY RESPONSE

DPW has made all expenditure adjustments for all of the \$5,001,490 in federal funds cited in the draft audit report. Additionally, DPW has implemented several procedures that should assist in identifying project profile problems and a process for making the necessary corrections to facilitate project payments and closings.

OIG COMMENT

DPW's comments to the draft report are responsive to the intent of the recommendations.

FINDINGS AND RECOMMENDATIONS

FINDING 2: Closing Out Completed Grant Projects

SYNOPSIS

DPW did not close out completed grant contracts timely because final invoices had not been prepared by DPW engineers or had not been received from railroad corporations. The OIG has previously reported this finding; however, DPW did not take the corrective action that it had agreed to do. We plan to elevate this recommendation to the Deputy Mayor and City Administrator for resolution should DPW actions to close out these projects remain ineffective. Closeout of these projects could result in the release of up to \$3.9 million that DPW could use for existing or new highway projects. These funds represent the difference between amounts budgeted for the project and amounts actually spent.

AUDIT RESULTS

DPW did not close 17 completed highway projects although work has been reported as completed, in some instances, for as much as 13 years (see Exhibit B). Since FY 1989, DPW has closed an average of 18 projects per year. DPW needs to expedite the closeout of projects for which work is reported as complete.

DPW was unable to provide its criteria for the timely closeout of grants for which work has been physically completed. However, 27 DCMR §§ 1204.4 and .5 require that contracts are to be closed out within 12 months after the end of the month on which the contractor received physical evidence of completion. While grants and contracts are not synonymous, DPW needs to establish and follow similar requirements for the closeout of grant projects.

In discussions with DPW personnel, we were informed that the closeout of these grant projects had been delayed because final invoices had not been prepared by DPW engineers or had not been received from railroad corporations. Additionally, releases are needed from contractors before projects can be closed. The final invoice will identify any remaining costs to be reimbursed, and the release will provide assurances to the District that all payments have been made and that the contractor has no outstanding bills relative to the contract.

Staff attrition in the past 10 years at DPW's Design, Engineering, and Construction Administration has resulted in the loss of over 120 staff members. Consequently, project managers must balance their time between working active projects and completed projects (including those projects that had previously been assigned to other or former project managers).

FINDINGS AND RECOMMENDATIONS

DPW has been ineffective in correcting this previously reported condition. On February 28, 2000, the OIG issued its report on Projects Funded by DPW and FHWA. Included in this report was a finding and related recommendation for the closeout of these same completed grant projects. DPW agreed to close most of these projects within 2 months; however, DPW did not take the corrective action that it had agreed to do.

RECOMMENDATION 2

We recommended that the DPW Director:

- a. Close out the remaining projects listed in Exhibit B.
- b. Establish and follow similar requirements for closeout of grant projects as provided for contracts in 27 DCMR §§ 1204.4 and .5.

AGENCY RESPONSE

DPW reported that they have completed the most difficult of the old project closings and are working on the remainder. They specifically noted that items 13-17 on Exhibit B only require a finalization audit (this is noted as point C on the exhibit). Additionally, the functions of project management and accountability, previously assigned to DPW staff, have now been transferred to the newly created Department of Transportation with the DPW. Staff are currently working on the remaining projects listed as outstanding on Exhibit B and hope to have them finalized and closed before the end of fiscal year 2001. DPW has implemented several procedures that assist in identifying project profile problems and a process for making the necessary corrections to facilitate project payments and closings.

OIG COMMENT

DPW's comments to the draft report are generally responsive to the intent of the recommendations. We would like to take this opportunity to again notify DPW officials that due to new legislative requirements the OIG will no longer be providing audit assistance to the DPW in the review of project expenditures and final audit closeout of federal highway projects. As such, DPW officials will need to perform any necessary audit finalizations without the assistance of the OIG.